

# memorandum

DATE: January 22, 2003

Audit Report No.: OAS-L-03-09

REPLY TO  
ATTN OF: IG-34 (A02PT033)

SUBJECT: Review of the Department's Administration of Financial Instruments

TO: Director/Chief Financial Officer, Office of Management, Budget, and Evaluation, ME-1

The purpose of this report is to inform you of the results of our review of the Department of Energy's (Department) administration of financial instruments. The review was initiated in September 2002 and fieldwork was conducted through December 2002 at Department Headquarters, the National Energy Technology Laboratory (NETL) and the Oak Ridge National Laboratory (ORNL). Our methodology is described in the attachment to this report.

## INTRODUCTION AND OBJECTIVE

The Department spent over \$20 billion in Fiscal Year 2001 on energy resources, national nuclear security, environmental quality, science and corporate management. In conducting these programs, the Department established a decentralized structure of program offices, field sites, national laboratories and management contractors. Because tasks are often distributed among various sites and contractors, funds are frequently transferred among organizations. Each of these transfers can add indirect and overhead costs to the project or task to be accomplished. The objective of our audit was to determine whether charges assessed for administering contracts and other award instruments were appropriate.

## CONCLUSIONS AND OBSERVATIONS

Based on our limited review at NETL and ORNL, we determined that charges for administering subcontracts and other financial instruments appeared to be reasonable. Because of the limited scope of our review, we did not determine whether the total costs for subcontract or financial instrument administration were reasonable or appropriate.

Since no recommendations are being made in this report, a formal response is not required. We appreciated the cooperation of your staff throughout the audit.



Rickey R. Hass, Director  
Science, Energy, Technology,  
and Financial Audits  
Office of Audit Services  
Office of Inspector General

Attachment

cc: Team Leader, Audit Liaison, ME-2.1

## METHODOLOGY

To accomplish the audit objective, we:

- Reviewed DOE Accounting Handbook and Accounting Guidance relating to fund transfers and indirect costs;
- Reviewed Cost Accounting Standards Board Disclosure Statement - Part IV Indirect Costs for various laboratories to determine the Department's approved application of its contractors' indirect rates;
- Reviewed and analyzed current indirect rates that laboratories charge to determine if rates appeared appropriate;
- Reviewed, sampled and analyzed National Energy Technology and Oak Ridge National Laboratories approved funding programs and inter-contractor purchases processes to determine the appropriateness of the rates being used and the methodology by which the rates were applied; and
- Held discussions and collected data from appropriate Department and contractor officials to determine their methodologies and justifications for indirect rates being applied.

We conducted the audit according to generally accepted government auditing standards for performance audits and included tests for internal controls and compliance with laws and regulations to the extent necessary to satisfy the audit objective. Accordingly, we assessed the Department's internal controls with regard to the charging of indirect rates to subcontracts. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. Our audit was focused on charging indirect rates to subcontracts and as a consequence we did not evaluate any other aspect of the underlying accounting system. We did not rely on computer generated data, therefore, we did not assess data reliability. Management waived the exit conference.

# memorandum

DATE: JAN 28 2003

REPLY TO:  
ATTN OF: IG-34 (A02PT033)

SUBJECT: Final Report Package for "Department's Administration of Financial Instruments"  
Audit Report Number: OAS-L-03-09

TO: Frederick D. Doggett, Deputy Assistant Inspector General for Audit Services

Attached is the required final report package on the subject audit. The pertinent details are:

1. Actual Staff days: 135  
Actual Elapsed days: 134
2. Names of OIG and/or contractor audit staff:  
Assistant Director: George W. Collard  
Team Leader: Robert W. Lewandowski  
Auditor-in-Charge: George G. Daugherty  
Audit Staff: Thomas M. Barwatt
3. Coordination with Investigations and Inspections:  
Investigations: Yvette Milam - September 23, 2002  
Inspections: Henry Minner - September 25, 2002



Rickey R. Hass, Director  
Science, Energy, Technology,  
and Financial Audits  
Office of Audit Services  
Office of Inspector General

Attachments:

1. Final Report (3)
2. Monetary Impact Report
3. Audit Project Summary Report
4. Audit Database Information Sheet

**MONETARY IMPACT OF REPORT NO.: OAS-L-03-09**

1. Title of Audit: "Department's Administration of Financial Instruments"

2. Division: Science, Energy, Technology, and Financial Audits

3. Project No.: A02PT033

4. Type of Audit:

Financial: \_\_\_\_\_ Performance: X  
 Financial Statement \_\_\_\_\_ Economy and Efficiency X  
 Financial Related \_\_\_\_\_ Program Results \_\_\_\_\_  
 Other (specify type): \_\_\_\_\_

5.

FINDING		BETTER USED				QUESTIONED COSTS			MGT. POSITION	POTENTIAL BUDGET IMPACT
(A)	(B) Title	(C) One Time	Recurring			(G) Questioned Portion	(H) Unsupported Portion	(I) Total	(J) C=Concur N=Noncon U=Undec	(K) Y=Yes N=No
			(D) Amount Per Year	(E) No. Yrs.	(F) Total Amount					
	None	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
TOTALS--ALL FINDINGS		\$0	\$0	\$0	\$0	\$0	\$0	\$0		

6. Remarks: There is no current monetary impact or potential future savings.

7. Contractor: \_\_\_\_\_  
 8. Contract No.: \_\_\_\_\_  
 9. Task Order No.: \_\_\_\_\_

10. Approvals:  
 Division Director & Date [Signature] 1/28/03  
 Technical Advisor & Date [Signature] \_\_\_\_\_

Office of the Inspector General (OIG)  
 Audit Project Office Summary (APS)

Report run on: January 23, 2003 8:27 AM

Audit#: A02PT033 Ofc: PTA Title: ADMINISTRATION FINANCIAL INSTRUMENTS BY LABS

\*\*\*\* Milestones \*\*\*\*

	Profile	Planned End of Survey	Revised	Actual	
Entrance Conference:	06-SEP-02	10-SEP-02	10-SEP-02	10-SEP-02	
Survey Completed:	06-NOV-02	16-JAN-03	16-JAN-03	16-JAN-03	
Field Work Complete:					
Draft Report Issued:					
Exit Conference:					
Completed with Report:	15-MAR-03	16-JAN-03	16-JAN-03	22-JAN-03	( R )
-----Elapsed Days	190	128		134	
-----Staff Days:	225	0		135	
Date Suspended:		Date Terminated:			
Date Reactivated:		Date Cancelled:			
DaysSuspended(Cur/Tot):	0 (	) Report Number:	OAS-L-03-09		
Rpt Title: REVIEW OF THE DEPARTMENT'S ADMINISTRATION OF FINANCIAL INSTRUMENTS					

\*\*\*\* Audit Codes and Personnel \*\*\*\*

Aud Type: EAE	ECONOMY & EFFICIENCY	AD:	376	LEWANDOWSKI
Category: MPA	MULTIPROGR. ACTIVITY	AIC:	500	DAUGHERTY
DOE-Org: HFM	HEADQUARTERS, FINANC	HDQ-Mon:	421	SCHULMAN
Maj Iss: 009	CONTRACT/GRANT ADMIN	ARM:	459	COLLARD
Site: MSA	MULTI-SITE AUDIT			

\*\*\*\* Task Information \*\*\*\*

Task No:		CO Tech. Rep:	
Task Order Dt:		Orig Auth Costs:	
Orig Auth Hrs:		Current Auth Cost:	
Current Auth:		Tot Actl Cost:	
Tot Actl IPR Hr:			

\*\*\*\* Time Charges \*\*\*\*

<u>Emp/Cont Name</u>	<u>Numdays</u>	<u>Last Date</u>
WILSON, A	.6	11-JAN-03
LEWANDOWSKI, R	9.9	11-JAN-03
DAUGHERTY, G	49.8	28-DEC-02
BARWATT, T	74.6	11-JAN-03
<b>Total:</b>	<b>134.9</b>	

**AUDIT DATABASE INFORMATION SHEET**

1. Project No.: A02PT033
2. Title of Audit: Department's Administration of Financial Instruments
3. Report No./Date: OAS-L-03-09/January 22, 2003
4. Management Challenge Area: Contract Administration
5. Presidential Mgmt Initiative: No specific initiative
6. Secretary Priority/Initiative: No specific initiative
7. Program Code: ME
8. Location/Sites: Headquarters, NETL and ORNL
9. Finding Summary: No findings. This was a letter report.
10. Keywords: financial instruments  
indirect rates  
inter-contractor purchases